Federal Family Education Loan Program
(CFDA No. 84.032)

I. Legislation

Higher Education Act (HEA) of 1965, Title IV-B, as amended by P.L. 103-66 (20 U.S.C. 1071-1087-2) (expires September 30, 1997). The General Education Provisions Act (GEPA) extends the program for an additional year.

II. Funding History

Fiscal Year	Appropriation	Fiscal Year	Appropriation
1966	$10,000,000	1987	$2,717,000,000
1970	74,726,000	1988	2,565,000,000
1975	580,000,000	1989	4,284,695,000
1980	1,609,344,000	1990	5,206,552,000
1981	2,535,470,000	1991	5,406,152,000
1982	3,073,846,000	1992	7,595,631,000
1983	3,100,500,000	1993	5,825,338,000
1984	2,256,500,000	1994	163,461,000 1/
1985	3,799,823,000	1995	4,561,331,000
1986	3,265,941,000	1996	4,728,978,000

1/ After subtracting a payment of $4.79 billion made by the Student Loan Marketing Association to the Department to extinguish previous indebtedness.

III. Analysis of Program Performance

A. Goals and Objectives

This program is designed to help financially needy undergraduate and graduate students meet the costs of their education at participating postsecondary institutions by encouraging private lenders to provide federally subsidized and insured long-term loans to students and their parents.

B. Strategies to Achieve the Goals

Services Supported

The Federal Family Education Loan Program (FFEL) has four components: the Federal Stafford Loan program, the Federal Unsubsidized Stafford Loan program, the Federal PLUS program, and the Federal Consolidation Loan program. Subsidized federal Stafford loans provide federal reinsurance and interest subsidies on loans for eligible undergraduate, graduate, and professional students. Unsubsidized Stafford loans provide reinsurance on loans for graduate and professional students, as well as independent undergraduates. PLUS loans provide federal reinsurance on loans to parents of dependent undergraduates to help them meet their dependents' cost of education. Consolidation loans allow a borrower to consolidate multiple student loans into a single loan during repayment.

FFELs are available to help students who attend participating postsecondary institutions and meet the applicable eligibility criteria. A student receiving a subsidized Stafford loan must demonstrate financial need based on the cost of education and the ability of the student or the student's family to pay this cost. Need is calculated in accordance with a congressionally specified formula that analyzes the financial data of the student or the student's family. Unsubsidized SLS and PLUS loans are not need based and may be used to offset the student or parent borrower's expected contributions toward the cost of education.

In FY 1996 the amount of loans guaranteed by the FFEL programs was $19.7 billion; there were approximately 4.4 million individual borrowers. Comparable figures for FY 1982 were $6.2 billion in loans and 2.8 million individual borrowers.

Table 1 shows the number of loans and the loan amount for the three individual FFEL components in FY 1996.

Table 1

FFELs Loans, by Program Components
FY 1996

	Number (‘000s)	Percent	Amount (‘000,000s)	Percent of Total
Subsidized Stafford	3,288	61.6	$11,501	58.3
Unsubsidized Stafford	1,769	33.2	6,568	33.3
PLUS	279	5.2	1,658	8.4
Total	5,336	100.0%	$19,727	100.0%

Source: V.1. (Based on loan commitments)

Table 2 provides details on the sector distribution of FFEL loans.

Table 2

FFEL Loans by Type and Control FY 1996

Type of Institution	Number of borrowers (‘000's)	Percent of loans	Amount of loans (‘000,000s)	Percent of Total
Public, 4-Year	1,625	37.2	$7,161	36.3
Public, 2-Year	472	10.8	1,243	6.3
Private, 4-Year	1,516	34.7	8,759	44.4
Private, 2-Year	100	2.3	375	1.9
Private, for-profit	660	15.1	2,190	11.1
Total	4,373	100.1	$19,728	100.0%

Source: V.1

As shown in Table 2, the largest proportion of FFEL loan funds (44 percent) went to borrowers attending four-year private institutions. Borrowers attending proprietary institutions received 11 percent of the loans committed under FFEL.

Table 3 shows the distribution of Stafford loans by the family income and dependency status of the student for the 1995-96 academic year:

Table 3

Distribution of FFEL, by Income and Dependency Status, 1995 - 96 Academic Year

	Dependent students		Independent students		All students	
Family income	Percent of loans	Average loan	Percent of loans	Average loan	Percent of loans	Average loan
Under $15,000	12.7	$3,019	59.1	$5,955	35.7	$5,428
$15,001 - $30,000	21.3	3,285	23.6	5,739	22.4	4,564
$30,000 - $60,000	39.7	3,327	14.3	6,717	27.2	4,214
More than $60,000	26.3	3,559	3.0	7,641	14.7	3,972
Total FFELP	100.0%	$3,332	100.0%	$6,010	100.0%	$4,690

Source: V.1

The Federal Family Education Loan program makes available below-market, variable-interest-rate, long-term loans to help students attend participating postsecondary schools.

Table 4 shows the applicable interest rate for the various FFEL components.

Table 4
Interest Rates by Academic Year and Program Component

Type of loan	Loans made on or after July 1, 1994	Loans made on or after July 1, 1995	Loans made on or after July 1, 1998
Stafford and Unsubsidized Stafford	91-day Treasury bill rate +3.1%, not to exceed 8.25%	91-day Treasury bill rate +2.5%, during in- school, grace, or deferment periods, but T-bill rate remains +3.1% during repayment; not to exceed 8.25%	Bond equivalent rate of securities with comparable maturity +1.0%, not to exceed 8.25%
PLUS	52-week Treasury bill rate +3.1%, not to exceed 9%	52-week Treasury bill rate +3.1%, not to exceed 9%	Bond equivalent rate of securities with comparable maturity +2.1%, not to exceed 9%
FFEL Consolidation Loans	Weighted average of the interest rates on the consolidated loans, rounded up to the nearest whole percent	Weighted average of the interest rates on the consolidated loans, rounded up to the nearest whole percent	Weighted average of the interest rates on the consolidated loans, rounded up to the nearest whole percent

Note: All interest rates on new loans are variable, recalculated annually and adjusted each July 1.

The program uses private loan capital supplied primarily by commercial lenders. To offset the below-market interest rate they charge for a Stafford Loan, lenders receive interest subsidies and special allowance payments when applicable on eligible Stafford loans. Lenders do not receive interest benefits for unsubsidized Stafford or PLUS loans but may receive special allowance payments if the variable rate exceeds the applicable cap. Borrowers generally have a maximum of 10 years to repay an FFEL loan, but may receive periods of deferment or forbearance and income-sensitive or graduated-repayment options.

These loans are guaranteed by individual state or private, nonprofit guaranty agencies and are reinsured by the federal government. Since FY 1994 an administrative cost allowance (ACA) has been paid out of Direct Loan transition costs and is no longer part of the FFEL account. Also, the reinsurance fees previously paid by guaranty agencies have been eliminated.

Maximum Loan Limits

Table 5 shows the FFEL loan maximums by dependency status and academic level.

Table 5: FFEL Loan Maximums		
	Annual limits	
Dependent undergraduates	Subsidized	Total (Subsidized & Unsubsidized)
1st year student	$2,625	$2,625
2nd year student	$3,500	$3,500
3rd year+ student	$5,500	$5,500
Independent undergraduates		
1st year student	$2,625	$6,625
2nd year student	$3,500	$7,500
3rd year+ student	$5,500	$10,500
Graduate Students	$8,500	$18,500
	Aggregate limits	
Dependent undergraduates	$23,000	$23,000
Independent Undergraduates	$23,000	$46,000
Graduate Students	$65,500	$138,500

Borrower Default Rates

Table 6 shows the borrower cohort default rates For FFEL loans from FY 1989 through FY 1994, the most recent year available. Default rates vary by the type and control of institution attended. The FY 1994 cohort contains all borrowers who entered repayment status in FY 1994. The FY 1994 cohort default rate is the percentage of this cohort that defaulted in FY 1994 or FY 1995.

Table 6: Borrower Cohort Default Rates for Federal Family Education Loans:(FY 1989-1994)

Type of institution attended by borrowers	1989	1990	1991	1992	1993	1994
Public, 4-year	6.2%	7.0%	6.5%	7.0%	6.9%	6.8%
Public, 2-year	16.0	17.2	14.7	14.5	14.5	13.8
Private, 4-year	6.1	6.5	5.7	6.4	6.2	6.3
Private, 2-year	15.6	18.5	15.5	14.3	13.5	13.5
Private, for-profit	35.5	14.2	19.9	30.2	23.9	21.0
Average	21.4%	22.4%	17.8%	15.0%	11.6%	10.7%

Source: V.1

Strategic Initiatives

Following are some of the initiatives undertaken the Department to improve the operation and the management of the FFEL program.

Loan Servicing and Default Collection

The Department of Education has made a commitment to improve services to students and postsecondary institutions through better management of student financial aid programs in a number of key areas. For example, the Department has transformed its loan servicing and collection efforts. Between 1993 and 1996, the Department doubled the amount of defaulted loans collected each year, to $2.5 billion.

Reengineered Institutional Oversight to Remove Ineffective Schools

The Department also has refocused its oversight of the postsecondary institutions that participate in the student financial aid programs. At the heart of this effort is the reorganization of the Office of Postsecondary Education's Institutional Participation and Oversight Service (IPOS) into regional case management divisions. These divisions are responsible for all core oversight functions for their respective portfolio of schools. The reorganization will allow the Department to monitor schools' compliance with requirements of the student financial aid programs more efficiently while easing the administrative burden on schools.

As a result of the Department's efforts to target its monitoring resources on schools that pose the greatest risk to students and taxpayer funds, a total of 672 institutions have lost eligibility to participate in Title IV programs; 381 institutions were terminated from all Title IV programs for poor performance and 291 institutions lost their eligibility to participate in the student aid programs through the ongoing recertification process. In addition, 203 institutions are no longer eligible to participate in the loan programs because of high default rates. These aggressive accountability and oversight efforts remove ineffective schools from the student financial aid programs, both protecting students and ensuring accountability for taxpayer funds.

Cutting Red Tape--Experimental Sites

The Department also has made a concerted effort to reduce the administrative burden on institutions. Under the Department's Experimental Sites initiative, more than 600 experiments have been approved at 135 higher education institutions. These projects exempt schools from certain regulatory and statutory requirements so that they can innovate to better meet their students' needs without sacrificing accountability. These experiments reduce the burden on participating schools; moreover, the results will be used to evaluate how the Department might monitor institutions of higher education more flexibly in the future.

Improving Systems for Greater Efficiency and Accountability

The Department's use of the latest technology further improves services for students and schools in the federal financial aid programs. The National Student Loan Data System (NSLDS) provides schools and the Department with information in an electronic format on student aid recipients. This system which is in the final stages of implementation, makes the job of the schools easier and helps to prevent fraud, waste, and abuse in the programs. Institutions also receive free EDExpress software that allows them to administer the delivery of student aid electronically. The new technology also benefits students, who now can apply for financial aid using Free Application for Federal Student Aid (FAFSA) Express software.

The Omnibus Budget Reconciliation Act of 1993 incorporated many provisions to improve management of the FFEL program:

- Authority to direct a guaranty agency to promptly assign defaulted loans when it is determined that such action will protect the federal financial interest;

- Broad authority to preserve or recover guaranty reserves where there has been misuse or improper expenditure of reserve funds. The Secretary also has the authority to require a guaranty agency to return any portion of an agency's reserve fund that the Secretary determines is unnecessary for paying the program expenses and contingent liabilities of the agency.

- Authority to terminate a guaranty agency's reinsurance agreement if the Secretary determines that such action best protects the federal fiscal interest.
- Authority to make emergency advances to guaranty agencies to meet their immediate cash needs, including uninterrupted payment of claim to lenders, as well as to help them fulfill their lender-of-last-resort obligations.
- A variety of revenue-sharing and risk-sharing provisions including loan fees from lenders and from Sallie Mae, reduced reinsurance payments to guaranty agencies, and a fee to be paid by states whose schools have default rates exceeding 20 percent.

The Department also published a booklet, Reducing Student Loan Defaults: A Plan for Action which describes the rising cost of defaults, the types of students that default, and the most common reasons for default. It also recommends steps that postsecondary institutions, lenders, guarantee agencies, accrediting agencies, states, and the federal government can take to reduce defaults. The booklet recommends that (V.2):

- Schools counsel all students on their loan responsibilities, work closely with lenders to reduce defaults, improve the quality of their education, and establish good job placement programs;

- Lenders communicate effectively with student borrowers during all phases of the loan process, use effective collection techniques, and carefully monitor organizations that service FFEL Loans;

- State guaranty agencies monitor lenders and postsecondary institutions and help enforce program laws and regulations, help institutions in their default reduction efforts, help lenders collect repayments before loans default, and diligently pursue collections of loans that default.

C. Program Performance--Indicators of Impact and Effectiveness

A frequently used method of measuring the effects of the student aid programs--including loans--is to compare graduation and persistence rates of financial aid recipients with those of nonrecipients. Data from the 1994 Beginning Postsecondary Students survey (Source V.3), based on surveys in April 1994, of students who had entered postsecondary education in July 1989, show that lower-income Stafford Loan recipients in 4-year public institutions obtained bachelor degrees at rates that were higher than or similar to those of nonrecipient higher-income students. Specifically:

- Students with family's incomes below $20,000 who received a Stafford loan obtained a bachelor degree at rates similar to those for nonrecipient students with family incomes between $20,000 and $50,000.

- Students with family incomes between $20,000 and $50,000 who received a Stafford loan obtained a bachelor degree at a rate similar to nonrecipient students with family incomes $50,000 or higher.

- In addition, students who began postsecondary education in 1989 and received any loan were more likely to have obtained a degree by 1994 than were those who did not borrow--63.5 percent vs. 43.5 percent.

The Department has also published a draft Performance Plan for the FFEL program that is presented in the following pages.

Please see also Office-Wide Performance Indicators for the Office of Postsecondary Education displayed in the Overview (OPS) to the postsecondary education programs.

Education Loan Program (FFEL)			
Goal: To successfully deliver and manage the FFEL Program in an efficient and cost-effective manner to help students and their parents meet postsecondary education costs.			
Objectives	**Indicators**	**Source and Next Update**	**Strategies**
Borrowers			
1. Undertake initiatives to keep default rate at a minimum.	**1.1 Borrower-level default rate.** FFEL cohort default rate will continue to decline until it reaches a rate of at least 10%, (rate to be compared, if possible, to other relatively similar government and consumer loans). *For FY 1990 - 1994, the rates were 22.4%, 17.8%, 15.0%,, 11.6%, and 10.7 respectively, dropping by more than 52% over the five year period.*	1.1 Office of Postsecondary Education (OPE) data, annual, 1997	• The President's FY 1998 Budget includes provisions designed to place more emphasis on preventing student loan defaults by making it economically attractive for lenders and guaranty agencies to prevent default instead of collecting after the default. The proposals include: increasing lender risk-sharing from 2% to 5%; requiring lenders to request preclaim assistance from guaranty agencies on seriously delinquent loans and requiring the lenders to pay the guarantee agencies a fee ($100 is being considered) for each account the agencies bring current; reducing the percentage of default collections that a guarantee agency may retain from the current 27% to no more than 18.5% (the Department will attempt to negotiate the fee with each guarantee agency at an amount no greater than the agency would have received had it been successful in preventing the default).

Education Loan Program (FFEL)			
Goal: To successfully deliver and manage the FFEL Program in an efficient and cost-effective manner to help students and their parents meet postsecondary education costs.			
Objectives	**Indicators**	**Source and Next Update**	**Strategies**
			And, to minimize our loss on defaults OPE is seeking to obtain new authorities including the authority to (1) access data on employment from the states, (2) insure that states offset their employees salaries upon ED's request, and (3) access data from state licensing agencies.In addition, we are disseminating information to students on the cost of defaulting.
2. Maintain a high level of borrower satisfaction from the time of loan origination through the end of the repayment period	**2.1 Overall satisfaction with the FFEL Program.** FFEL borrower satisfaction will continue to improve until at least a 90% level is achieved. *Current baseline of overall satisfaction to be determined, but one measure of satisfaction with the loan process - "overall level of ease in obtaining a loan" - shows that 84% of FFEL student borrowers found the process to be somewhat or very easy. Plans for assessing satisfaction during repayment period are under development.*	2.1 Program evaluation, Macro, Inc., 1997	• Continuous service improvements by lenders and guaranty agencies will occur as a consequence of Direct Loan competition. • We anticipate that the expansion of the "common line" electronic application process, currently in development, will reduce borrower burden and application turnaround time.
Schools, lenders, guaranty agencies			

Education Loan Program (FFEL)

Goal: To successfully deliver and manage the FFEL Program in an efficient and cost-effective manner to help students and their parents meet postsecondary education costs.

Objectives	Indicators	Source and Next Update	Strategies
3. Ensure access to FFEL loans in a changing marketplace.	**3.1 Continued access to FFEL loans.** No eligible student will be denied access to a loan. *We are not aware of any current problems with eligible student access to loans.*	3.1 Borrower complaint data (GLOS), ongoing, 1997	• We have worked with the lender and guaranty agency community to resolve past access shortages. We are not aware of any shortages that now exist. However, we will continue to consult with the community and take quick action to resolve any access problems that may arise.
4. Maintain a high level of school satisfaction.	**4.1 Overall satisfaction with the FFEL Program.** Level of satisfaction will meet or exceed the level of school satisfaction measured last year. *67% of schools reported satisfaction* last year.	4.1 Program evaluation, Macro, 1997	• Enhancements to NSLDS will improve schools' ability to access borrower records and reduce burden. The elimination of both the Financial Aid Transcripts and the paper-based student status confirmation reporting process should increase school satisfaction.

Education Loan Program (FFEL)			
Goal: **To successfully deliver and manage the FFEL Program in an efficient and cost-effective manner to help students and their parents meet postsecondary education costs.**			
Objectives	**Indicators**	**Source and Next Update**	**Strategies**
Effective program management			
5. Provide a program that is cost-effective for the taxpayer.	**NOTE: OPE will closely monitor each of the default, delinquency, and collection rates, while striving toward continuous improvement. Any adverse trends will be carefully analyzed for development of appropriate management corrective action.** **5.1 Gross default rate.** The lifetime gross dollar cohort default rate projects future defaults over the life of a loan cohort. *The rates, for the FY '92-'96 cohorts are currently estimated at 18.9%, 18.1%, 17.5%, 17.4%, and 17.1%, respectively*. **5.2 Loss rate**. The loss rate (lifetime net default rate), projects the overall rate of the Department's liability for a cohort of defaulted loans after taking into account collections on defaulted loans. *The rates for the FY '92-'96 cohorts are currently estimated at 8.3%, 7.9%, 7.7%, 7.6%, and 7.5% respectively.* **5.3 Annual delinquency rate.** The delinquency rate will measure the dollar amount of loans "past due" as a percentage of dollars in repayment. *The baseline is being developed as the definition of "past due" is being finalized.*	5.1 Office of the Under Secretary, Budget Service, annual, 1997 5.2 Budget Service, annual, 1997 5.3 OPE data, annual, 1997	• As stated under the first "Borrower" objective, the President's FY 1998 Budget includes provisions designed to place more emphasis on preventing student loan defaults by making it economically attractive for lenders and guaranty agencies to prevent default instead of collecting after the default. Also, to minimize our loss on defaults, DCS is seeking to obtain many new authorities, including the authority to (1) access data on employment from the states, (2) insure that states offset the salaries of their employees upon ED's request, and (3) access data from state licensing agencies. • As major procurements come up for recompetition, we will be moving toward performance-based contracting. • Our commitment to reducing the per unit costs of NSLDS as well as the aforementioned movement toward performance-based contracting will result in reduced administrative costs.

Education Loan Program (FFEL)			
Goal: To successfully deliver and manage the FFEL Program in an efficient and cost-effective manner to help students and their parents meet postsecondary education costs.			
Objectives	**Indicators**	**Source and Next Update**	**Strategies**
	5.4 Annual collection rate. The annual collection rate is a measurement of annual net default dollars collected divided by dollars in default. *This rate, as of 9/30/96, is 9.2%, reflecting total collections of over $2.2 billion compared to total amount owed of nearly $24.2 billion. The rate has been regularly improving since 1992. For FY 1992 -1996, the rates were 7.1%, 6.9%, 8.2%, 8.9%, and 9.2%, respectively.* **5.5 Administrative cost.** On a per unit basis, administrative costs will be benchmarked against other comparable programs, e.g. Sallie Mae. *Baseline under development* **5.6 Contractor performance.** All major deliverables will be produced on time, within cost or budget, and meet an independent assessment of quality. *Prototype contractor report is under development*	5.4 OPE data, quarterly, 1997 5.5 OPE/Budget Service, annual, 1997 5.6 Evaluation by OPE's contract monitor, monthly (exceptions reporting on deliverables & $s), 1997	
6. Ensure a higher integrity National Student Loan Data System (NSLDS) and guarantor and lender reporting systems.	**6.1 Data quality.** High quality data, including reliability of data provided by Guaranty Agencies (GAs) and institutions to the NSLDS and data reported by lenders and GAs for ED reporting systems. *Baselines for data-quality are under development.*	6.1 Analysis of NSLDS and other systems, ongoing (Error rates will be compared with the "to be developed" baseline), 1997	• An NSLDS data integrity plan is under development. Adherence to this plan is expected to increase data quality considerably. Also, the guaranty agencies have recently pledged their support by making their partnership with OPE in resolving NSLDS data problems a high priority.

Education Loan Program (FFEL)			
Goal: To successfully deliver and manage the FFEL Program in an efficient and cost-effective manner to help students and their parents meet postsecondary education costs.			
Objectives	**Indicators**	**Source and Next Update**	**Strategies**
7. Provide fiscal management of the FFEL Program of the highest quality.	**7.1 FFEL financial statements.** No material internal control weaknesses identified in the FFEL portion of ED's department-wide financial statement audit (fault free audit). *Three material internal control weaknesses were cited in the FFEL portion of ED's 1995 department-wide financial statement audit*. **7.2 Lender and guaranty agency audit results.** The percent of lenders and guaranty agencies that are found to be in compliance in all significant program areas will approach 100%. *Baseline is under development*. **7.3 Strengthening quality of audits.** Assessments of guaranty agency and lender audits will show steadily improved quality over time. *Baseline is under development.*	7.1 Financial statement audits, annual, 1997 7.2 Lender and guaranty agency audits, annual, 1997 7.3 OIG, ongoing, 1997	• Audit quality should be improved by taking a closer look at third party audits. Work with ED's Office of the Inspector General (OIG) to assure that all audits are conducted in accordance with auditing standards. • We will also work with OIG and OMB to refine our audit guidance so that program specific information may be obtained This will enhance OPE's ability to monitor ED's funds and assets and will improve the Departmental Financial Statement.

IV. Planned Studies

None.

V. Sources of Information

1. Program files.

2. Reducing Student Loan Defaults: A Plan for Action (Washington DC: U.S. Department of Education, August 1990).

3. National Postsecondary Student Aid Study 1989-90; 1992-93; & 1995-96 school year. Data Files. (Washington, DC: U.S. Department of Education, National Center for Education Statistics, 1991; 1994; & 1996.)

VI. Contacts for Further Information

Program Operations:	Donald Conner (202) 708-9069
Program Studies:	Dan Morrissey, (202) 401-0182